



Michigan Is for Taxers

Has Michigan Governor Jennifer Granholm hired Jacques Chirac as her new economic adviser?

Among the 50 states, Michigan ranks dead last in new jobs last year (losing 45,000), and near the bottom in income growth. So it's no surprise that

Ms. Granholm is seeking a new formula for growth and prosperity. But the Democratic Governor is touting a new taxing scheme for Michigan that looks a lot like the industrial policy model of Old Europe, where economically omniscient governments try to pick business winners and losers—and usually make a mess of it.

The “revenue neutral” tax plan would give tax breaks to Michigan’s big three automakers and other heavy manufacturers, while shifting the burden to retailers, wholesalers, banks, insurance companies, professional services and thousands of small businesses. Some in Michigan are dubbing the Granholm Plan the shift-and-shaft tax policy. And that’s why its political reception so far has been as frosty as a damp wintry breeze off Lake Michigan.

Ms. Granholm is right about the need to chop the corporate tax load in Michigan. The Tax Foundation reports that the state has the highest corporate tax burden in the nation, a fact that isn’t helping General Motors as it copes with declining market share and fierce competition from the likes of Toyota. Hillsdale College economist Gary Wolfstrom finds that, despite the high tax rates, Michigan was only one of two states to actually lose tax revenues in Fiscal Year 2004. The Midwestern state is a glittering example of how high tax rates can unbalance a state budget.

*The Governor’s reform plan:
Echoes of France.*



Jennifer Granholm

Compounding the problem is that Michigan is the only state to levy a de facto value added tax on its businesses. (That’s another similarity to Old Europe.) Called the Single Business

Tax (SBT), this levy is applied to production. This means that any company that loses money or just man-

ages to break even still often pays a hefty sum to the tax man just for the privilege of operating in Michigan. Hence, many don’t.

The Granholm plan would cut the business VAT tax rate and provide a personal property tax credit for manufacturers. If only she had stopped there. Instead, in deference to the gods of “revenue neutrality,” her plan triples the tax on profits, doubles insurance taxes, and arguably violates Proposal A, the state’s constitutionally required inflation cap, by effectively raising property tax assessments on commercial real estate.

Actually, her plan is a stealth tax hike because the tax base she uses was 2001 when revenues were severely depressed due to recession and the aftermath of 9/11. In non-recessionary times, the plan may in reality amount to a \$100 million tax hike.

The better course would be for Michigan legislators to approve tax cuts for manufacturers, dump the job-destroying tax hikes, and balance the state budget with spending restraint. Better yet, they could finish the job that was started under previous Governor John Engler of phasing down, and eventually phasing out, the SBT.

In the meantime, there’s a perverse logic in Ms. Granholm’s belief that her plan will create new jobs by cutting taxes on the industries that are laying off workers and raising taxes on the professional service industries that actually are hiring them. The Granholm plan may well keep Michigan Number One—in high taxes, business relocations, and job losses.